United Nations E/ICEF/2016/AB/L.6

Economic and Social Council

Distr.: Limited
18 July 2016

Original: English

For decision

United Nations Children's Fund
Executive Board
Second regular session 2016
14-16 September 2016
Item 11 of the provisional agenda*

UNICEF Strategic Plan: updated financial estimates, 2016-2019

Summary

A four-year financial framework forms part of the UNICEF Strategic Plan, which is presented, usually for a period of four years, in accordance with Executive Board decisions 2000/3 and 2013/20. The financial plan is reviewed and revised annually on a rolling basis. The current Strategic Plan covers the period 2014-2017.

Total revenue is forecast to be $4.8 billion in 2016, a decline of 3 per cent from 2015. Revenue is projected to decrease a further 1 per cent in 2017 compared with 2016. In 2018 and 2019, revenue is expected to resume gradual growth. Total expenditures in 2016 are estimated at $5.2 billion, exceeding forecast revenue by $357 million. The deficit will be financed from cash balances. The planned expenditures will reduce cash balances, but UNICEF will continue to meet a prudent liquidity requirement.

This financial framework of revenue and expenditure estimates provides a basis for determining the level of regular resources programme submissions to be approved in 2017. Allocations of regular resources for country programmes during the period under review will be managed through the modified system for allocation of regular resources for programmes, as revised by the Executive Board in its decisions 2008/15 and 2013/20.

UNICEF recommends that the Executive Board approve the framework of planned financial estimates for the period 2016-2019 and approve the preparation of programme expenditure submissions to the Executive Board of up to $1,465 million from regular resources in 2017, subject to the availability of resources and the continued validity of these planned financial estimates. A draft decision is included in section III.

* E/ICEF/2016/13.

16-12351 (E) 050816

Please recycle

Contents

		Page
	Introduction	3
I.	Financial review, 2015	3
	A. Revenue	3
	B. Expenditure	4
	C. Trust funds	4
	D. Reserves and liquidity	4
II.	Planned financial estimates for 2016-2019	5
	A. Revenue	5
	B. Expenditure	6
	C. Funded reserves	7
	D. Cash balance	8
III.	Draft decision	8
	Annex Planned financial estimates tables	9

Introduction

1. A four-year financial plan forms part of the UNICEF Strategic Plan in accordance with Executive Board decisions 2000/3 and 2013/20 and is reviewed and revised annually on a rolling basis.

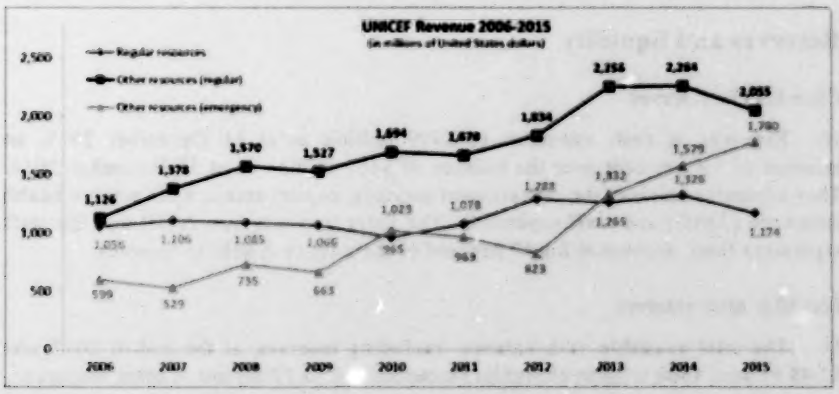
2. The financial plan is preceded by a review of the financial performance of UNICEF in the previous year, with highlights of the financial trends that evolved during a recent multi-year period. The purpose of the review is to provide key high-level information on revenue, expenditure and liquidity as a baseline to the financial plan.

I. Financial review, 2015

A. Revenue

3. Total revenue decreased by 3 per cent in 2015, to $5,010 million, which to a large extent was impacted by volatility in the currency markets. The strengthening United States dollar had a negative impact on the absolute levels of revenue recorded on non-United States-dollar-based contributions. In 2015, due to the stronger United States dollar, the impact on private-sector contributions was approximately 15 per cent less United States dollar revenue recorded. The main source of revenue continued to be voluntary contributions from Governments, private organizations and individuals, which accounted for 98 per cent of total revenue. The remaining 2 per cent of the revenue was generated by interest of $35 million, procurement services for partners of $42 million, miscellaneous activities of $14 million and royalties and sales of greeting cards and products of $9 million.

4. Regular resources revenue (non-earmarked or "core" funds) in 2015 was $1.17 billion, a decrease of 11 per cent as compared with 2014 ($1.33 billion). Other resources (regular) (earmarked funds) contributions were $2.06 billion and other resources (emergency) were $1.78 billion. Increases in other resources (emergency) funds of $200 million were offset by decreases in other resources (regular) of $210 million, bringing the overall level of other resources in line with 2014 levels.



5. The increase in other resources (emergency) revenue of 13 per cent over 2014 is attributed primarily to funding received for support to Syrian refugees and Ebola response, as well as to Iraq, Nepal, South Sudan, the Syrian Arab Republic and Yemen. Core resources accounted for 23 per cent of total revenue in 2015 compared with 26 per cent in 2014.

6. In 2015, a total of 135 Governments contributed to UNICEF resources. Total public-sector contributions (from Governments, intergovernmental organizations and inter-organizational arrangements), at $3,455 million, were 29 per cent more than planned, but 6 per cent less than in 2014. Private-sector contributions (from National Committees, individual donors, non-governmental organizations and foundations), at $1,457 million, were 12 per cent more than planned and 4 per cent more than in 2014.

B. Expenditure

7. Total expenditures amounted to $5.2 billion in 2015, an increase of 5 per cent over 2014. Programme and development effectiveness represented 91 per cent of total UNICEF expenditure in 2015 compared with 90 per cent in 2014. Further detailed analysis of 2015 financial performance is provided in chapter IV of the UNICEF Financial Statements for 2015 as well as in the annual report of the Executive Director of UNICEF, presented at the 2016 annual session of the Executive Board.

C. Trust funds

8. Trust funds are established mainly for services carried out on behalf of Governments and other organizations for the procurement of vaccines and other commodities essential for the well-being of children.

9. Procurement services receipts tripled in the past ten years, from $593 million in 2006 to $1,789 million in 2015. This increase reflects the evolving opportunities that UNICEF has to shape the global market for vaccines and other child-related products and to achieve savings for partners and UNICEF.

D. Reserves and liquidity

Cash held in reserves

10. Reserves in cash amounted to $499 million as at 31 December 2015, an increase of 1.6 per cent over the balance of $467 million as at 31 December 2014. They comprise reserves for procurement services, capital assets, after-service health insurance (ASHI) and staff separation. The latter two reserves, ASHI and the staff separation fund, accounted for 97 per cent of the total cash held in reserves.

Liquidity after reserves

11. The total available cash balance, excluding reserves, at the end of 2015 was $2.48 billion: $560 million of regular resources and $1.92 billion of other resources.

12. Contributions for both other resources and trust funds are normally received before implementation begins and are governed by multi-year agreements.

13. In 2015, UNICEF met the requirement of a prudent level of liquidity for regular resources, defined as the equivalent of expenditure for three to six months, or about $300 million to $600 million. This prudent guideline concurs with the general practice of non-profit organizations, including the United Nations community.

II. Planned financial estimates for the period 2016-2019

14. This section presents the projections of UNICEF financial resources for the period 2016-2019. It comprises revenue and expenditure projections, and the resulting cash balances for regular resources and other resources. Estimates for trust funds are also included. In line with decision 2013/20, the presentation of the planned financial estimates has been aligned with the format of the integrated resource plan as presented in the UNICEF integrated budget for 2014-2017 and presents the planned use of resources grouped by the harmonized cost classification categories.

15. The financial projections provide a financial framework for the yearly phasing of estimated regular resources expenditure. In particular, it provides a financial context for future programme submissions to be made to the Executive Board.

A. Revenue

16. The present financial plan has been developed during a period of economic uncertainty. While children's needs increase during periods of economic hardship, the realities of fiscal austerity and high unemployment in some donor countries dictate prudent financial projections. Despite the ongoing difficult economic climate, UNICEF continues to be a partner of choice for donors.

17. Other resources revenue is projected to decline by 8 per cent in 2016 compared with 2015. In 2017, other resources revenue is estimated to decline by another 2 per cent. In 2018 and 2019 other resources revenue will start to slightly increase year by year at a rate of 1 per cent. One of the main drivers for the other resources revenue decline is related to other resources (emergency) revenue, which is projected to decrease in 2016 by 26 per cent compared with 2015, despite the increased humanitarian funding requirement of $3.3 billion by December 2015. Revenue estimates are provided in table 1 (see annex).

18. The share of private contributions in UNICEF total revenue is expected to increase in the medium term, from 29 per cent in 2015 to 34 per cent in 2019.

19. Regular resources revenue is targeted to increase by 11 per cent in 2016 by focusing on growing revenue from pledge donors and expanding legacy funding.

20. Regular resources revenue is targeted to maintain a modest growth of between 1 and 2 per cent per year over the period 2017-2019, primarily resulting from growth in private-sector fundraising. Estimates of regular resources revenue are provided in table 1.

B. Expenditure

21. Despite the projected decline in total revenue in 2016, total expenditure is expected to increase by 1 per cent compared with 2015. Smooth implementation of ongoing programmes will be facilitated by financing the deficit with cash balances. If, as forecasted, total revenue declines further in 2017, total expenditure will be adjusted downward in 2017, but will still be higher than revenue.

22. As shown in table 2 (see annex), total estimated annual expenditure during the planning period will exceed the projected annual revenue. The resulting deficit will be funded from the balance accumulated in prior years, when actual revenue was greater than planned.

Regular resources expenditure

23. The main components of estimated regular resources expenditure for the period 2016-2019 are: (a) development activities comprising (i) programmes and (ii) development effectiveness, and accounting for 77 per cent of the total use of regular resources; (b) management activities accounting for 11 per cent; and (c) special-purpose activities, including private-sector fundraising, accounting for 12 per cent.

Programmes

24. As noted in the review of revenue performance, overall regular resources to UNICEF decreased by 11 per cent in 2015. Public-sector regular resources contributions declined by 17 per cent, while private-sector regular resources contributions declined by 7 per cent. Both are slightly offset by a 3 per cent increase in other regular resources revenue. Contributions from both the public and private sectors were negatively impacted by exchange-rate variations. Regular resources and thematic funds directly support the achievement of programme results by enabling longer-term planning and lowering transaction costs. It is critical for UNICEF and its partners to redouble efforts to ensure a flexible and predictable funding base.

25. If the conservative revenue projections under this plan are realized, UNICEF intends to maintain the current 2016 annual allocation of regular resources for programme assistance of $935 million for the years between 2017 and 2019. Allocations of regular resources to country programmes will be managed according to the modified system for allocation, approved by the Executive Board in its decisions 2008/15 and 2013/20, which favours countries in greatest need. Table 4 (see annex) indicates how regular resources expenditures on approved, new and future proposals for programmes will be phased each year from 2016 through 2019.

26. At the beginning of 2016, regular resource expenditures for ongoing country programmes were estimated at $1.79 billion. The amount of regular resources for programmes proposed to the Executive Board for approval in 2016 totals $1.32 billion for programme cycles that start in 2017.

27. For 2017, the estimated amount of regular resources for programme proposals to be approved by the Executive Board is $1.47 billion for programme cycles that start in 2018. The level of planned programme expenditures will be continuously reviewed and adjusted on the basis of updated information on projected revenue.

Institutional budget

28. At its second regular session of 2013, the Executive Board approved a four-year institutional budget of $2.10 billion for the period 2014-2017 to support the UNICEF Strategic Plan, 2014-2017. A report on the midterm review of the integrated budget, 2014-2017 was presented at the annual session of 2016 and approved by the Executive Board to be maintained at the initially approved level of $2.10 billion. The budget for development effectiveness, United Nations development coordination, management and special purpose (capital investments) costs is referred to as the institutional budget. It is funded from regular resources, other resources and cost recovery.

Cost recovery

29. For the period 2014-2017, UNICEF has started to apply the new cost-recovery methodology and rates as approved in decision 2013/5. In line with the approved cost-recovery methodology, cost recovery from other resources will fund the management and special purpose (capital investment) activities of the institutional budget. The proposed use of cost recovery is reflected in table 5.

30. The institutional budget for the period 2014-2017, as originally approved in 2013, was estimated to be funded 55 per cent from regular resources, 39 per cent from cost recovery and 6 per cent directly from other resources. In 2015, the actual institutional budget funding split was 39 per cent from regular resources, 55 per cent from cost recovery and 6 per cent from other resources. Actual cost recovery in 2015 was $257 million compared with a planned amount of $247 million. The additional cost recovery was used to fund the institutional budget ("management" and "special purpose – capital investment" cost-classification categories), reducing the amount of regular resources used to fund the institutional budget, while remaining within the overall approved institutional budget (see table 5, annex). This trend is expected to continue for the remainder of the approved integrated budget period (2016-2017) and into the period 2018-2019.

Other resources expenditure

31. The projections of programme assistance expenditure funded by other resources, presented in table 5, reflect efforts to accelerate implementation. Actual other resources expenditure in 2015 was $123 million higher than revenue, which is an improvement compared with 2014, when actual other resources expenditure was $188 million lower than revenue. Other resources expenditure in 2016 is projected to be 8 per cent greater than other resources revenue, and this trend is expected to accelerate further in the following years, with expenditure up to 11 per cent greater than other resources revenue. The revenue-expenditure gap is financed from the balance of other resources carried over from previous years.

C. Funded reserves

32. The two largest funded reserves are for post-service staff liabilities. These reserves are: the separation fund for repatriation costs and accrued annual leave, and the ASHI fund. The total amount of funding for these reserves is projected to increase from $499 million in 2015 to $608 million in 2019, as shown in table 3 (see annex).

33. Following discussions with the Executive Board in recent years and with the implementation of the International Public Sector Accounting Standards, which require the full reporting of after-service staff liabilities in corporate financial statements, UNICEF has developed and is implementing a robust funding strategy for these liabilities. The strategy will ensure that, over time, the reserve for these liabilities is accumulated from the funding sources to which post costs are correctly attributed. UNICEF will continue to monitor the effectiveness of and make appropriate adjustments to the strategy as financial variables change.

D. Cash balance

34. The regular resources cash balance at year end 2016 is projected to be $490 million, which is equivalent to four or five months of disbursements. The regular resources cash balance is used as working capital to mitigate the liquidity risk related to fluctuations in cash inflows. Unlike other resources, which are allocated to programmes when cash is received from a donor, regular resources allocations for country programmes are made in November for the following year, before regular resources funds are received. It is therefore critical to have working capital to start programme implementation while awaiting cash from donors. The best practice among development organizations is to maintain working capital sufficient for three to six months of expenditures. In the case of UNICEF, those levels would translate to between $300 million and $600 million. The projected working capital falls within that range, reaching $307 million by 2019, as indicated in table 3.

35. As part of the efforts to accelerate programme implementation, other resources expenditure is projected to be greater than revenue for every year of the planning period 2016-2019. Therefore, the other resources available balance is projected to decrease from $1.92 billion at year end 2015 to $490 million in 2019.

III. Draft decision

36. UNICEF recommends that the Executive Board adopt the following draft decision:

The Executive Board

1. *Takes note* of the planned financial estimates for the period 2016-2019 as contained in document E/ICEF/2016/AB/L.6 as a flexible framework for supporting UNICEF programmes;

2. *Approves* the integrated resources framework of planned financial estimates for the period 2016-2019 and approves the preparation of programme expenditure submissions to the Executive Board of up to $1.47 billion from regular resources in 2017, subject to the availability of resources and the continued validity of these planned financial estimates;

3. *Requests* UNICEF to provide annual updates to the Executive Board on the progress of funding its reserves for staff liabilities.

Annex

Planned financial estimates tables[1]

1. UNICEF revenue estimates
2. Integrated resources plan: regular and other resources
3. UNICEF planned financial estimates: regular resources
4. Regular resources: yearly phasing of estimated expenditures for programme
5. UNICEF planned financial estimates: other resources
6. UNICEF planned financial estimates: trust funds (procurement services activities)

[1] The totals in the tables may not add up exactly due to rounding.

Table 1
UNICEF revenue estimates
(in millions of United States dollars)

				Plan		
	Plan 2015	*Actual 2015[a]*	*Estimate 2016*	*2017*	*2018*	*2019*
Regular resources						
Governments	561	546	542	530	529	530
Private sector	588	530	655	678	700	721
Other revenue	91	97	105	111	116	116
Total — regular resources	**1 240**	**1 174**	**1 302**	**1 318**	**1 345**	**1 367**
Growth percentage	(6)%	(11)%	11%	1%	2%	2%
Other resources						
Regular						
Governments	1 260	1 080	1 134	1 195	1 195	1 195
Private sector	759	713	826	806	846	871
Inter-organizational arrangements	221	262	268	226	211	211
Subtotal — programmes	**2 240**	**2 055**	**2 228**	**2 226**	**2 251**	**2 276**
Growth percentage	(1)%	(9)%	8%	(0)%	1%	1%
Emergencies						
Governments	839	1 396	1 049	983	987	987
Private sector	180	214	90	90	90	90
Inter-organizational arrangements	210	170	175	175	175	175
Subtotal — emergencies	**1 229**	**1 780**	**1 315**	**1 249**	**1 252**	**1 252**
Growth percentage	(22)%	13%	(26)%	(5)%	0%	0%
Total — other resources	**3 469**	**3 836**	**3 543**	**3 475**	**3 503**	**3 528**
Growth percentage	(10)%	(0)%	(8)%	(2)%	1%	1%
Total revenue	**4 709**	**5 010**	**4 845**	**4 793**	**4 848**	**4 895**
Growth percentage	(9)%	(3)%	(3)%	(1)%	1%	1%

[a] Actual growth percentage in 2015 is in comparison to 2014 actual.

Table 2
Integrated resource plan: regular resources and other resources
(in millions of United States dollars)

				Plan		
	Plan 2015	*Actual 2015*	*Estimate 2016*	*2017*	*2018*	*2019*
1. Resources available						
Opening balance	2 658	2 658	2 498	2 122	1 639	1 215
Revenue						
Contributions	4 618	4 913	4 740	4 682	4 732	4 779
Other income	91	97	105	111	116	116
Total revenue	4 709	5 010	4 845	4 793	4 848	4 895
Adjustment	(19)	(19)	(19)	(19)	(19)	(19)
Total available	**7 348**	**7 648**	**7 323**	**6 895**	**6 468**	**6 090**
2. Use of resources						
A. Development						
A.1 Programmes	4 319	4 546	4 439	4 438	4 477	4 514
Country	*4 145*	*4 395*	*4 259*	*4 256*	*4 294*	*4 332*
Global and regional	*174*	*150*	*179*	*182*	*182*	*182*
A.2 Development effectiveness	142	129	159	166	155	155
Subtotal	**4 461**	**4 675**	**4 598**	**4 604**	**4 632**	**4 669**
B. United Nations development coordination	**9**	**6**	**11**	**11**	**9**	**9**
C. Management	**370**	**312**	**385**	**429**	**389**	**389**
D. Special purpose						
D.1 Capital investments	14	22	11	11	14	14
D.2 Private-sector fundraising	101	97	147	151	160	162
D.3 Other	45	39	49	49	49	49
Subtotal	**160**	**158**	**208**	**212**	**224**	**225**
Institutional budget (A.2+B+C+D.1)	**535**	**469**	**567**	**617**	**568**	**568**
Integrated budget (A+B+C+D)	**5 000**	**5 150**	**5 202**	**5 256**	**5 254**	**5 293**
Closing balance of resources	**2 348**	**2 498**	**2 122**	**1 639**	**1 215**	**797**
Funded reserves						
After-service health insurance	410	411	430	450	470	490
Separation and termination liabilities	75	73	85	95	105	115
Field office accommodation	4	12	9	6	3	1
Procurement services	2	2	2	2	2	2
Total	**491**	**499**	**526**	**553**	**580**	**608**

Table 3
UNICEF planned financial estimates: regular resources
(in millions of United States dollars)

				Plan		
	Plan 2015	*Actual 2015*	*Estimate 2016*	*2017*	*2018*	*2019*
1. Resources available						
Opening balance	617	617	580	490	368	325
Revenue						
Contributions	1 149	1 077	1 197	1 207	1 229	1 251
Other income	91	97	105	111	116	116
Total revenue	1 240	1 174	1 302	1 318	1 345	1 367
Adjustment	(19)	(19)	(19)	(19)	(19)	(19)
Total available	**1 838**	**1 772**	**1 863**	**1 789**	**1 694**	**1 673**
2. Use of resources						
A. Development						
A.1 Programmes	937	874	935	935	935	935
Country	*892*	*830*	*890*	*890*	*890*	*890*
Global and regional	*45*	*44*	*45*	*45*	*45*	*45*
A.2 Development effectiveness	114	100	130	135	124	124
Subtotal	**1 051**	**974**	**1 066**	**1 070**	**1 059**	**1 059**
B. United Nations development coordination	**5**	**5**	**5**	**5**	**5**	**5**
C. Management	**132**	**72**	**142**	**186**	**145**	**142**
D. Special purpose						
D.1 Capital investments	5	5	5	5	5	5
D.2 Private sector fundraising	101	97	106	106	106	106
D.3 Other	45	39	49	49	49	49
Subtotal	**151**	**141**	**160**	**160**	**160**	**160**
Institutional budget (A.2+B+C+D.1)	**256**	**182**	**282**	**330**	**278**	**275**
Integrated budget (A+B+C+D)	**1 339**	**1 192**	**1 373**	**1 421**	**1 369**	**1 366**
Closing balance of resources	**499**	**580**	**490**	**368**	**325**	**307**
Funded reserves						
After-service health insurance	410	411	430	450	470	490
Separation and termination liabilities	75	73	85	95	105	115
Field office accommodation	4	12	9	6	3	1
Procurement services	2	2	2	2	2	2
Total	**491**	**499**	**526**	**553**	**580**	**608**

Table 4

Regular resources: yearly phasing of estimated expenditures for programmes

(in millions of United States dollars)

	2016	*2017*	*2018*	*2019*	*Beyond 2019*	*Total recommendations*
Programme						
1. Country programmes approved in prior years	791	528	235	158	76	1 788
2. New country programmes to be submitted to 2016 Executive Board sessions		263	263	263	526	1 315
3. New country programmes to be prepared for submission to 2017 Executive Board sessions			293	293	879	1 465
4. New country programmes to be prepared for submission to future Executive Board sessions				77	717	794
5. Amount set aside	62	62	62	62		
6. Estimated allocation of net revenue from sale of greeting cards in countries with UNICEF programmes	2	2	2	2		
Subtotal	**855**	**855**	**855**	**855**		
7. Additional emergency requirements	35	35	35	35		
Subtotal	**890**	**890**	**890**	**890**		
8. Global and regional programmes	45	45	45	45		
Total: programmes	**935**	**935**	**935**	**935**		

Table 5
UNICEF planned financial estimates: other resources
(in millions of United States dollars)

				Plan		
	Plan 2015	*Actual 2015*	*Estimate 2016*	*2017*	*2018*	*2019*
1. Resources available						
Opening balance	2 041	2 041	1 918	1 631	1 271	889
Revenue						
Contributions	3 469	3 836	3 543	3 475	3 503	3 528
Total revenue	3 469	3 836	3 543	3 475	3 503	3 528
Total available	**5 510**	**5 877**	**5 461**	**5 106**	**4 774**	**4 417**
2. Use of resources						
A. Development						
A.1 Programmes	3 383	3 672	3 503	3 503	3 541	3 579
Country	*3 253*	*3 566*	*3 369*	*3 366*	*3 404*	*3 442*
Global and regional	*129*	*107*	*134*	*137*	*137*	*137*
A.2 Development effectiveness	27	29	29	31	32	32
Subtotal	**3 410**	**3 701**	**3 532**	**3 534**	**3 573**	**3 611**
B. United Nations development coordination	**4**	**1**	**6**	**6**	**4**	**4**
C. Management[a]	**238**	**240**	**243**	**244**	**244**	**247**
D. Special purpose						
D.1 Capital investments[a]	9	17	7	7	9	9
D.2 Private-sector fundraising	–	–	41	45	54	56
D.3 Other	–	–	–	–	–	–
Subtotal	**9**	**17**	**48**	**52**	**64**	**65**
Institutional budget (A.2+B+C+D.1)	**279**	**287**	**285**	**287**	**289**	**292**
Integrated budget (A+B+C+D)	**3 661**	**3 959**	**3 829**	**3 835**	**3 885**	**3 927**
Closing balance of resources	**1 849**	**1 918**	**1 631**	**1 271**	**889**	**490**

[a] Amounts reflect use of other resources cost recovery to fund management and capital investments.

Table 6
UNICEF planned financial estimates: trust funds (procurement services activities)
(in millions of United States dollars)

			Plan		
	Actual 2015	*Estimate 2016*	*2017*	*2018*	*2019*
1. Opening balance	414	459	680	727	754
2. Receipts	1 789	1 808	1 745	1 787	1 787
3. Disbursements	1 745	1 587	1 697	1 760	1 779
4. Closing balance	459	680	727	754	763